**MERCHANDISING BUSINESS BUDGETS**

The following information was used in the creation of these examples.

**TriStar Inc.**

TriStar Inc., a merchandising business, wants a master budget prepared, beginning January 1, 20XX. The managers of the different departments have provided the following information:

The **Sales Manager** has projected the following sales:

* + 1st Quarter 9,760 units
  + 2nd Quarter 10,520 units
  + 3rd Quarter 11,040 units
  + 4th Quarter 8,680 units
  + Projected selling price is $10.40/unit.

The **Purchases Manager** has provided the following information:

* + Ending inventory for each quarter is to be 40% of next quarter’s sales.
  + Next year’s 1st Quarter Sales are estimated to be 10,000
  + Estimated purchase price of $3.00/unit.

The **Accounting Department Manager** has provided the following information:

* Selling Expenses (round to the nearest 10 dollars):
  + Advertising Expense is calculated at 2.2 % of the Net Sales
  + Delivery Expense is calculated at $0.25 per unit
  + Depr. Expense - Delivery Equip. is calculated at $2,000 per year equally divided
  + Depr. Expense - Warehouse Equip. is calculated at $4,000 per year equally divided
  + Miscellaneous Expense - Sales is calculated at 0.5% of net sales
  + Salary Expense - Commissions is calculated at 4% of net sales
  + Salary Expense - Regular: 1st Quarter 5,190; 2nd Quarter 5,670; 3rd Quarter 6,000; 4th Quarter 4,510
  + Supplies Expense - Sales is calculated at 0.6% of net sales
* Administrative Expenses:
  + Depr. Expense - Office Equipment is calculated at $1,200 per quarter
  + Insurance Expense is calculated at $600 per quarter
  + Miscellaneous Expense - Administrative is calculated at 35% of Administrative Salaries
  + Payroll Taxes Expense is calculated at 12% of Total Projected Salaries
  + Rent Expense is calculated at $3,000 per quarter
  + Salary Expense is calculated at $8,150 per quarter
  + Supplies Expense - Administrative is calculated at 0.7% of net sales
  + Uncollectible Accounts Expense is calculated at 0.6% of net sales
  + Utilities is calculated at:
    - 1st Quarter - $1,970
    - 2nd Quarter - $1,170
    - 3rd Quarter - $1,170
    - 4th Quarter - $1,580
* Cash Receipts:
  + 4th Quarter Sales for the previous year was $125,115
  + 80% of a quarter’s net sales are collected during the same quarter (60% are cash sales, 20% are sales on account collected)
  + 19.4% of a quarter’s net sales are collected in the following quarter in which they were made
  + 0.6% of sales are deemed uncollectible (this is recorded in the Administrative Expense Budget)
* Cash Payments:
  + Prior year's 4th Quarter purchases was $25,180
  + 70% of all purchases are paid for during the same quarter (10% are cash payments, 60% are purchases on account paid for in the quarter)
  + 30% of all purchases are paid for in the following quarter
  + Selling Expenses is calculated as follows: Total Selling Expenses - (Depr Exp for Delivery and Warehouse Equipment)
  + Administrative Expenses is calculated as follows: Total Administrative Expenses - (Depr. Exp Office Equipment and Uncollectible Accts Exp)
* Beginning Cash Balance is $21,280
* the Cash Balance - Beginning is the Ending Cash Balance from the previous quarter.
* Federal Income Tax is estimated at 22.3% of Gross Income divided equally over the 4 quarters (round to the nearest $100).
* From the beginning Balance Sheet:
  + Building = $5,000
  + Retained Earnings = $83,440
  + Common Stock = 5,000 @ $10 each

**For the Master Budget, you are expected to prepare the following:**

* Sales Budget
* Purchases Budget
* Selling Expense Budget
* Administrative Expense Budget
* Budgeted Income Statement
* Cash Receipts Budget
* Cash Payments Budget
* Cash Budget
* Budgeted Balance Sheet

**Sales Budget:**

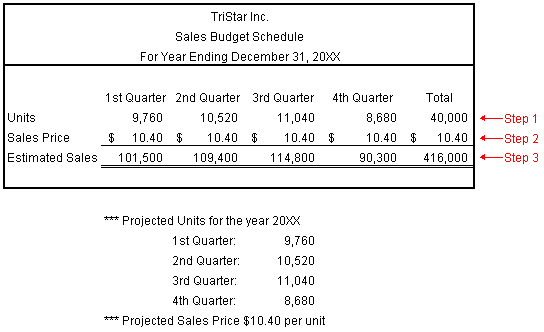
**Highlights**

* predicts dollars of sales
* is the first schedule prepared because many other schedules are dependent on it
* shows expected sales and units of production
* is the key to the entire process
* typically expressed in both dollars and units of product
* uses expected selling price to extend unit sales to revenues
* is often started by individual sales persons or managers predicting sales in their own area for the next period of time
* an aggregate sales budget is influenced by economic conditions, pricing decisions, competition, marketing programs, etc.

**Steps: Preparing a Sales Budget**

1. Record the projected units broken down by quarters (this information is provided by the sales manager).
2. Record the Projected Selling Price per Unit.
3. Calculate the estimated amount of sales.

**Sample Sales Budget**



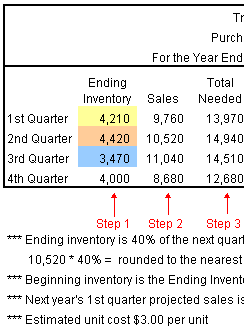
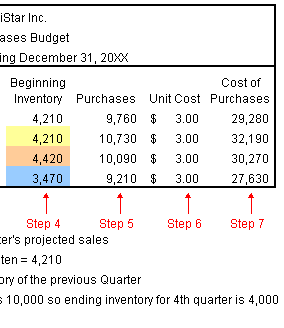
**Purchases (Inventory) Budget - Merchandising Firm**

**Highlights**

* this budget would be the second budget prepared
* is only applicable for merchandising or manufacturing firms only
* projects the quantity of goods to be purchased for the designated budget period
* follows the basic format of the cost of goods sold section of the income statement
* will be used to propose how much you will manufacture (or buy from suppliers) so that you can compensate for the demand (identified on your sales budget)
* quantity of merchandise/materials on hand at the beginning of the budget period must be known
* expressed in dollars

**Steps: Preparing a Purchases Budget**

1. Calculate the ending inventory for each quarter.
2. Enter projected unit sales for the quarter from the sales budget schedule.
3. *Add* ending inventory units and projected sales units to determine total units needed per quarter.
4. Enter beginning inventory, which is the same as ending inventory for the preceding quarter.
5. *Subtract* beginning inventory from total units needed to determine total unit purchases for the quarter.
6. Enter the unit cost for each quarter.
7. *Multiply* the unit purchases each quarter to determine the cost of purchases.

**Sample Purchases Budget**

|  |  |  |
| --- | --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |  | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
|  |  |  |

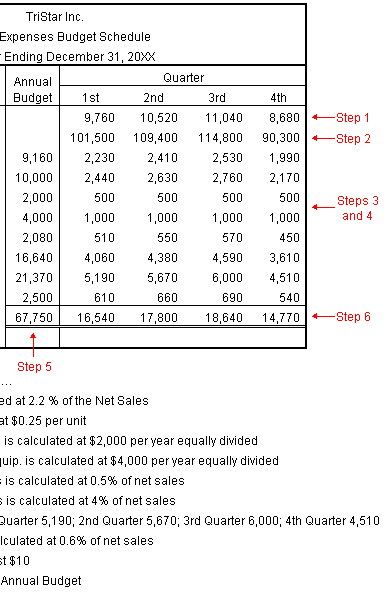
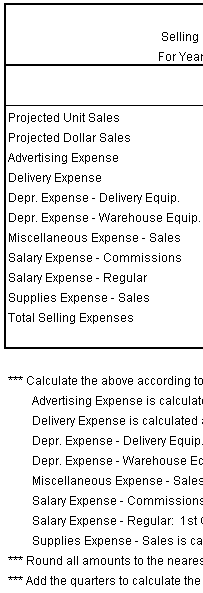
**Selling Expenses Budget - Merchandising Business**

**Highlights**

* anticipates selling expenses from the Sales and Inventory/Cost of Goods Manufactured Budgets
* may include the budgets of various individuals or groups involved in selling
* may be combined with the Administrative Expenses Budget
* selling expenses portion contains both variable (shipping costs, sales commission) and fixed (advertising and sales salaries) items

**Steps: Preparing a Selling Expenses Budget**

1. Record projected units to be sold (from Sales Budget).
2. Record projected dollar sales (from Sales Budget).
3. List the Variable Selling Expenses and calculate based on guidelines provided.
4. List the Fixed Selling Expenses and calculate based on guidelines provided.
5. Calculate the Annual Budget per Expense.
6. *Add* to calculate the Total Budgeted Selling Expenses.

**Sample Selling Expenses Budget**

|  |  |  |
| --- | --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |  | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
|  |  |  |

**Administrative Expenses Budget - Merchandising Business**

Highlights

* anticipates administration expenses from the Sales and Inventory/Cost of Goods Manufactured budgets
* may include the budgets of various individuals or groups involved in administration
* may be combined with the Selling Expenses Budget
* administrative expenses portion contains mostly fixed items (executive salaries and depreciation on company offices)

Steps: Preparing an Administrative Expense Budget

1. Record projected units to be sold (from Sales Budget).
2. Record projected dollar sales (from Sales Budget).
3. List the Variable Administrative Expenses and calculate based on guidelines provided.
4. List the Fixed Administrative Expenses and calculate based on guidelines provided.
5. Calculate the Annual Budget per Expense.
6. *Add* to calculate the Total Budgeted Administrative Expenses.

**Sample Administrative Expense Budget**

|  |  |
| --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Administrative Expense Budget | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Administrative Expenses Budget | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Administrative Expenses Budget |  |

**Budgeted Income Statement - Merchandising Business**

**Highlights**

* illustrates a company's projected sales, costs, expenses and net income
* based on: Sales, Purchases, Selling Expenses and Administrative Expense Budgets
* used to project net income or loss
* able to project federal income tax

**Steps: Preparing a Budgeted Income Statement**

1. Record Net Sales from the Sales Budget.
2. Calculate Cost of Merchandise Sold section (uses Purchases Budget)
   * 1st Quarter Beginning Inventory: *Multiply* Beginning Inventory for the 1st quarter by the Unit Cost
   * Purchases = 1st quarter Cost of Purchases
   * *Add* to calculate Total Merchandise Available
   * Ending Inventory = 1st Quarter Ending Inventory
   * *Subtract* to calculate 1st Quarter Cost of Merchandise Sold
   * 2nd, 3rd and 4th Quarter Beginning Inventory is equal to the previous quarter's Ending Inventory
3. Gross Profit on Operations = Net Sales – Cost of Merchandise Sold
4. Operating Expenses:
   * Record the Selling and Administrative Expenses from their respective budgets.
   * Calculate Total Operating Expenses .
5. Income from Operations = Gross Profit on Operation – Operating Expenses
6. Federal Income Tax is calculated at a percentage of Gross Income.
7. Net Income = Income from Operations – Federal Income Tax

**Sample Budgeted Income Statement**

|  |  |  |  |
| --- | --- | --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Budgeted Income Statement | Budgeted Income Statement | Budgeted Income Statement | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |

**Cash Receipts Budget - Merchandising Business**

**Highlights**

* this budget is only as accurate as the sales forecast
* good cash management requires planning and controlling cash so that it will be available to meet obligations
* based on the Sales Budget

**Steps: Preparing a Cash Receipts Budget Schedule**

1. Record sales per quarter including prior year's 4th quarter sales.
2. Calculate amounts per quarter based on guidelines given.
   * a percentage of sales will be collected in the same quarter as it is sold
   * a percentage of sales will be collected in the following quarter as it is sold
   * a percentage of sales will prove to be uncollectible (Administrative Expense Budget)

**Sample Cash Receipts Budget**

|  |  |  |
| --- | --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Cash Receipts Budget | Cash Receipts Budget |  |

**Cash Payments Budget - Merchandising Business**

**Highlights**

* this budget is only as accurate as the Purchases Budget
* based on the Purchases Budget

**Steps: Preparing a Cash Payments Budget Schedule**

1. Record purchases per quarter including prior year's 4th quarter purchases.
2. Calculate amounts per quarter based on guidelines given.
   * a percentage of purchases will be paid in the same quarter as it is purchased
   * a percentage of purchases will be paid in the following quarter as it is purchased
3. *Total* to calculate the Total Cash Payments for Purchases.
4. Record the Selling Expenses (minus any depreciation expense).
5. Record the Administrative Expenses (minus any depreciation expense and uncollectible accounts expense).
6. *Total* to calculate the Total Cash Operating Expenses
7. Record any other Cash Payments such as Dividends, Investments, Equipment purchases, or Notes Payable.
8. *Total* to calculate the Total Other Cash Payments.
9. *Add* Total Payments for Purchases, Operating Expenses and Other Payments to calculate Total Cash Payments.

**Sample Cash Payments Budget**

|  |  |  |  |
| --- | --- | --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Cash Payments Budget | Cash Payments Budget | Cash Payments Budget |  |

**Cash Budget - Merchandising Business**

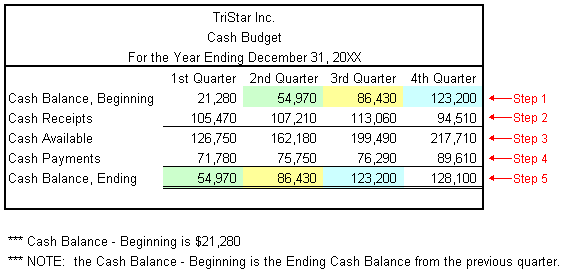
**Highlights**

* management of cash is crucial to meeting debt obligations as they come due without having excess cash idle
* major goal of all organizations is liquidity - pay all debts when they come due
* purpose: to optimize cash balances; having enough cash to meet liquidity needs and not having so much cash that profitability is sacrificed
* pulls together other budgets

**Steps: Preparing a Cash Budget**

1. Record the Cash Balance - Beginning for the 1st Quarter.
2. Record the Cash Receipts.
3. *Add* to calculate Cash Available.
4. Record the Cash Payments.
5. *Subtract* to calculate the Cash Balance - Ending

**Sample Cash Budget**



**Budgeted Balance Sheet - Merchandising Business**

**Highlights**

* the final step in preparing the master budget
* summarizes the company's financial position
* predicts amounts of the company's assets, liabilities and equity at the end of the budget period

**Steps: Preparing a Budgeted Balance Sheet**

1. Record the assets by analyzing the Purchases Budget, Cash Receipts Budget and the beginning balance sheet for the budget period.
2. Record the liabilities by analyzing the Expense Budgets and the Cash Payments Budget.
3. Calculate the equity by analyzing the information contained in the Cash Budget, the Budgeted Income Statement and the beginning balance sheet for the budget period.

**Sample Budgeted Balance Sheet**

|  |  |
| --- | --- |
| http://olc.spsd.sk.ca/de/acct30/images/spacer.gif | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Budgeted Balance Sheet | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |
| Budgeted Balance Sheet | http://olc.spsd.sk.ca/de/acct30/images/spacer.gif |